

OPEN MEETING



0000096882

ORIGINAL

MEMORANDUM RECEIVED

Arizona Corporation Commission

DOCKETED

TO: THE COMMISSION

2009 MAY 12 A 11: 57

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

MAY 12 2009

DATE: May 12, 2009

DOCKETED BY	
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RE: TUCSON ELECTRIC POWER - APPLICATION FOR APPROVAL TO REVISE ITS DSM SURCHARGE BEGINNING JUNE 1, 2009 (DOCKET NOS. E-01933A-07-0402 AND E-01933A-05-0650)

On March 24, 2009, Tucson Electric Power ("TEP" or "the Company") filed an application for approval to reset its demand-side management ("DSM") adjustor rate, in accordance with Decision No. 70628.

The TEP DSM adjustor mechanism allows the Company to recover the cost of its DSM programs; the adjustor is based on projected spending for the Company's DSM¹ programs. Funding for these programs is collected based on the adjustor rate approved by the Commission. Under- or over-collections are then "trued-up" at the next adjustor rate reset, meaning that the negative or positive balances are taken into account when the new adjustor rate is set.

Prior to the Commission's Decision No. 70628, the Company's DSM costs were recovered through base rates. The Decision established the DSM adjustor and set the current adjustor rate at \$0.000639 per kWh, to be applied to all kWh sales. Also, pursuant to Decision No. 70628, TEP was to file an application by April 1st of each year for Commission approval to reset the adjustor rate, with the new rate to take effect on June 1st of each year.

The Company is requesting an increase of \$0.000214 in the adjustor rate, from the current \$0.000639 per kWh to \$0.000853 per kWh. The increase is based on an under-collected balance from December 2008 and a projected 2009 budget for TEP's DSM portfolio, including the cost of developing a database designed to assist in program management and track program results.

Currently, the TEP DSM programs include the following: (i) the Education and Outreach Program; (ii) the Low-Income Weatherization Program; (iii) the Guarantee Home Program; (iv) the Efficient Home Cooling Program; (v) the Shade Tree Program; (vi) the Energy Star Lighting ("CFL") Program; (vii) the Non-Residential Existing Facilities Program; (viii) the Small Business Program; and (ix) the Efficient Commercial Building Design Program. The proposed budget includes downward adjustments for some programs due to the current economic climate.

¹ DSM is the planning, implementation, and evaluation of programs to shift peak load to off-peak hours, to reduce peak demand ("kW") and/or to reduce energy consumption ("kWh" or "therms") in a cost-effective manner. DSM may include energy efficiency, load management, and demand response.

The adjustor rate proposed by the Company also includes amounts for three items not yet approved by the Commission: (i) a proposed increase² in the TEP CFL program budget, which was filed with the Commission on April 9, 2009, and which is based on the program's high participation rates since inception; (ii) \$57,585 (20%)³ of the cost of the proposed Baseline Study for TEP, which was filed with the Commission on March 17, 2009; and (iii) 25 percent of the budget for a Direct Load Control program not yet filed with the Commission. (The Company is requesting \$212,888 for the Direct Load Control program, which would equal 25 percent of the proposed program's budget.)

The table below details TEP's proposed costs for 2009 and 2008 actual expenditures.

Program	2009 Budget	2008 Expenditures
Education and Outreach	\$551,000	\$402,158
Direct Load Control (25%)	\$212,888	-0-
Residential Efficiency Programs		
Low-Income Weatherization	\$261,620	\$136,518
Guarantee Home	\$2,414,536	\$1,676,928
Efficient Home Cooling	\$428,024	\$61,706
Shade Tree Program	\$160,000	\$137,827
Energy Star Lighting (CFL)	\$1,490,724	\$344,287
Non-Residential Efficiency Programs		
Non-Residential Existing Facilities	\$602,900	\$102,081
Small Business	\$1,102,800	\$91,109
Efficient Commercial Building Design	\$449,574	\$33,956
Program Totals	\$7,674,067	\$2,986,570
Measurement, Evaluation and Research	-0- ⁴	\$337,778 ⁵
Customer Care and Billing ("CC&B") database development	\$39,595	-0-
TEP Baseline Study allocation	\$57,585	-0-
Totals, with MER, CC&B, Study costs	\$7,771,247	\$3,324,347⁶
Amount under-collected for 2008	\$378,007	
Total proposed to be collected through DSM Adjustor for 2009	\$8,149,254	

² From the \$721,000 originally proposed for 2009 to \$1,490,724.

³ The \$57,585 (20%) was originally based on a preliminary budget for the baseline study. Although the overall budget was later modified, the Company has indicated that \$57,585 remains the appropriate spending level for the 2009-2010 program year.

⁴ Zero because measurement, evaluation and research work already included in individual program budgets for 2009.

⁵ Includes costs for work on the CC&B database in 2008; work on the CC&B database is broken out separately for 2009.

⁶ Most of this amount was collected through base rates, prior to the December 2008 Settlement Agreement. In December 2008 \$606,662 was expended on DSM program; of that amount \$228,655 was collected through the DSM Adjustor, leaving a balance of \$378,007 to be collected for 2008.

Staff recommends that the DSM adjustor rate be reset to include the 2008 costs already incurred, \$57,585 (20%) of the Baseline Study cost for TEP, and the costs projected for existing programs for 2009, including the higher budget for the CFL program. The Company has indicated that these projections are reasonable, given the level of program activity and participation. Staff's review of TEP's semi-annual DSM progress report for July-December 2008, filed April 1, 2009, also indicates that the level of funding proposed by the Company for its existing programs is reasonable.

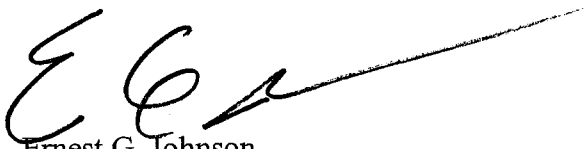
Staff recommends that the \$212,888 proposed for the Direct Load Control program not be included in the DSM adjustor rate for 2009. The application for approval of the Direct Load Control program has yet to be filed for Commission approval and there is insufficient information on which to base a Staff recommendation for this amount. Subtracting the \$212,888 for Direct Load Control from the proposed \$8,149,254 total results in a total of \$7,936,366 to be recovered, at a DSM adjustor rate of \$0.000831 per kWh (an increase of \$0.000192 per kWh).

Typical monthly bill impacts for Residential customers are listed below:

Average monthly usage by Season	kWh	Monthly increase from Company proposal (\$0.000214)	Monthly increase from Staff proposal (\$0.000192)	Monthly total based on Company proposal (\$0.000853)	Monthly total based on Staff proposal (\$0.000831)
Summer	1131	\$0.24	\$0.22	\$0.97	\$0.94
Winter	694	\$0.15	\$0.013	\$0.59	\$0.58

Summary of Staff Recommendations

- Staff recommends that the TEP DSM adjustor rate be set at a level of \$0.000831 per kWh, beginning June 1, 2009.
- Staff also recommends that recovery for a Direct Load Control program not be included in the current DSM adjustor rate at this time.



Ernest G. Johnson
Director
Utilities Division

EGJ:JMK:lhj:RM

ORIGINATOR: Julie McNeely-Kirwan

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES

Chairman

3 GARY PIERCE

Commissioner

4 PAUL NEWMAN

Commissioner

5 SANDRA D. KENNEDY

Commissioner

6 BOB STUMP

Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
OF TUCSON ELECTRIC POWER)

9 COMPANY FOR APPROVAL TO REVISE)
10 ITS DSM SURCHARGE BEGINNING)
JUNE 1, 2009)

DOCKET NOS. E-01933A-07-0402
E-01933A-05-0650

DECISION NO. _____

ORDER

11
12
13 Open Meeting
14 May 27 and 28, 2009
Phoenix, Arizona

15 BY THE COMMISSION:

16 FINDINGS OF FACT

17 1. Tucson Electric Power Company ("TEP" or "the Company") is engaged in
18 providing electric power within portions of Arizona, pursuant to authority granted by the Arizona
19 Corporation Commission.

20 2. On March 24, 2009, TEP filed an application for approval to reset its demand-side
21 management ("DSM") adjustor rate, in accordance with Decision No. 70628.

22 3. The TEP DSM adjustor mechanism allows the Company to recover the cost of its
23 DSM programs; the adjustor is based on projected spending for the Company's DSM¹ programs.
24 Funding for these programs is collected based on the adjustor rate approved by the Commission.

25 ...
26

27 ¹ DSM is the planning, implementation, and evaluation of programs to shift peak load to off-peak hours, to reduce
28 peak demand ("kW") and/or to reduce energy consumption ("kWh" or "therms") in a cost-effective manner. DSM
may include energy efficiency, load management, and demand response.

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5. The Company is requesting an increase of \$0.000214 in the adjustor rate, from the current \$0.000639 per kWh to \$0.000853 per kWh. The increase is based on an under-collected balance from December 2008 and a projected 2009 budget for TEP’s DSM portfolio, including the cost of developing a database designed to assist in program management and track program results.

6. Currently, the TEP DSM programs include the following: (i) the Education and Outreach Program; (ii) the Low-Income Weatherization Program; (iii) the Guarantee Home Program; (iv) the Efficient Home Cooling Program; (v) the Shade Tree Program; (vi) the Energy Star Lighting (“CFL”) Program; (vii) the Non-Residential Existing Facilities Program; (viii) the Small Business Program; and (ix) the Efficient Commercial Building Design Program. The proposed budget includes downward adjustments for some programs due to the current economic climate.

7. The adjustor rate proposed by the Company also includes amounts for three items not yet approved by the Commission: (i) a proposed increase² in the TEP CFL program budget, which was filed with the Commission on April 9, 2009, and which is based on the program’s high participation rates since inception; (ii) \$57,585 (20%)³ of the cost of the proposed Baseline Study for TEP, which was filed with the Commission on March 17, 2009; and (iii) 25 percent of the budget for a Direct Load Control program not yet filed with the Commission. (The Company is

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requesting \$212,888 for the Direct Load Control program, which would equal 25 percent of the proposed program's budget.)

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CONCLUSIONS OF LAW

1. TEP is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over TEP and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated May 12, 2009, and concludes that it is in the public interest to approve the TEP DSM Surcharge beginning June 1, 2009, as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the Tucson Electric Power Company DSM adjustor rate be and hereby is, set at a level of \$0.000831 per kWh, beginning June 1, 2009.

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IT IS FURTHER ORDERED that recovery for a Direct Load Control program not be included in the current DSM adjustor rate at this time.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, MICHAEL KEARNS, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2009.

MICHAEL KEARNS
INTERIM EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

EGJ:JMK:lh\RM

SERVICE LIST FOR: TUCSON ELECTRIC POWER COMPANY
DOCKET NOS. E-01933A-07-0402 and E-01933A-05-0650

Mr. Peter Nyce
Office of the Judge Advocate Gen.
901 North Stuart Street, Suite 713
Arlington, Virginia 22203-1644

Mr. Michael McElrath
Phelps Dodge Mining Company
One North Central Avenue
Phoenix, Arizona 85004

Mr. Philip J. Dion
UniSource Energy Services
One South Church Avenue, Suite 200
Tucson, Arizona 85701

Ms. Deborah Scott
Pinnacle West Corporation
400 East Van Buren Street
Phoenix, Arizona 85004-2202

Mr. Michael W. Patten
Mr. Jason Gellman
Roshka DeWulf & Patten, PLC.
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85044

Mr. Daniel Pozefsky
RUCO
1110 West Washington Street, Suite 220
Phoenix, Arizona 85007

Michael Kurtz
36 East Seventh Street, Suite 2110
Cincinnati, Ohio 45202

Mr. Greg Patterson
916 West Adams, Suite 3
Phoenix, Arizona 85007

Mr. Kurt Boehm
Boehm, Hurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

Mr. C. Webb Crockett
3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012-2913

Mr. Eric Guidry
2260 Baseline Road, Suite 200
Boulder, Colorado 80302

Mr. William Sullivan
501 East Thomas Road
Phoenix, Arizona 85012-3205

Mr. Nicholas Enoch
349 North Fourth Avenue
Phoenix, Arizona 8500

Mr. Dan Neidlinger
Neidlinger & Assoc.
3020 North 17 Drive
Phoenix, Arizona 85015

Mr. Timothy Hogan
202 East McDowell Road, Suite 153
Phoenix, Arizona 85004

Ms. Cynthia Zwick
1940 East Luke Avenue
Phoenix, Arizona 8501

Mr. Gary Yaquinto
Arizona Utility Investors Association
2100 North Central Avenue, Suite 210
Phoenix, Arizona 85004

Mr. Michael Grant
2575 East Camelback Road
Phoenix, Arizona 85016-922

S. Childers
Low & Childers, P.C.
2999 North 44th Street, Suite 250
Phoenix, Arizona 85018

1 Ms. Ruth Kern
8222 South 48th Street, Suite 220
2 Phoenix, Arizona 85044

3 Mr. Thomas Mumaw
4 Post Office Box 53999, MS 9905
Phoenix, Arizona 85072-3999

5 Ms. Barbara Klemstine
6 Post Office Box 53999, MS 9905
7 Phoenix, Arizona 85072-3999

8 Mr. David Berry
Post Office Box 1064
9 Scottsdale, Arizona 85252-1064

10 Mr. Christopher Hitchcock
11 Law Offices of Christopher Hitchcock, PLC
One Copper Queen Plaza
12 Post Office Box AT
Bisbee, Arizona 85603

13 MR. Daniel Haws
14 OSJA, ATTN: ATZS-JAD
15 USA Intelligence Center and Ft. Huachuca
Ft. Huachuca, Arizona 85613-6000

16 MR. Lawrence Robertson, Jr.
17 2247 East Frontage Road, Suite 1
Post Office Box 1448
18 Tubac, Arizona 85646

19 Mr. Raymond Heyman
20 Unisource Energy Corporation
One South Church, Suite 1820
21 Tucson, Arizona 85701

22 Ms. Michelle Livengood
23 Tucson Electric Power Company
One South Church Avenue, Suite 200
24 Tucson, Arizona 85701

25 Mr. David Couture
26 4350 East Irvington Road
Post Office Box 711, Mail Stop OH 122
27 Tucson, Arizona 85702

Mr. Jeff Schlegel
1167 West Samalayuca Drive
Tucson, Arizona 85704-3224

Mr. John O'Hare
3865 North Tucson Boulevard
Tucson, Arizona 85716

Mr. Billy Burtnett
3341 North Riverbend Circle East
Tucson, Arizona 85750-2509

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007